PUBLIC REPORT OF THE MARKET CONDUCT EXAMINATION

OF THE CLAIMS PRACTICES OF THE

MERITPLAN INSURANCE COMPANY
NAIC # 24821 CDI # 1429-0

AS OF MARCH 31, 2003

STATE OF CALIFORNIA

DEPARTMENT OF INSURANCE

MARKET CONDUCT DIVISION

FIELD CLAIMS BUREAU

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DEPARTMENT OF INSURANCE
Consumer Services and Market Conduct Branch
Field Claims Bureau, 11th Floor
300 South Spring Street
Los Angeles, CA 90013

September 4, 2003

The Honorable John Garamendi
Insurance Commissioner
State of California
45 Fremont Street
San Francisco, California 94105

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04 of the California Insurance Code; and Title 10, Chapter 5, Subchapter 7.5, Section 2695.3(a) of the California Code of Regulations, an examination was made of the claims practices and procedures in California of:

Meritplan Insurance Company

NAIC #24821

Hereinafter referred to as the Company.

This report is made available for public inspection and is published on the California Department of Insurance web site (www.insurance.ca.gov) pursuant to California Insurance Code section 12938.

SCOPE OF THE EXAMINATION

The examination covered the claims handling practices of the aforementioned Company during the period April 1, 2002 through March 31, 2003. The examination was made to discover, in general, if these and other operating procedures of the Company conform with the contractual obligations in the policy forms, to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR), the California Vehicle Code (CVC) and case law. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al.

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Company for use in California including any documentation maintained by the Company in support of positions or interpretations of fair claims settlement practices.

2. A review of the application of such guidelines, procedures, and forms, by means of an examination of claims files and related records.

3. A review of consumer complaints received by the California Department of Insurance (CDI) in the most recent year prior to the start of the examination.

The examination was conducted at the Company's offices in Irvine, California.

The report is written in a "report by exception" format. The report does not present a comprehensive overview of the subject insurer's practices. The report contains only a summary of pertinent information about the lines of business examined and details of the non-compliant or problematic activities or results that were discovered during the course of the examination along with the insurer's proposals for correcting the deficiencies. When a violation is discovered that results in an underpayment to the claimant, the insurer corrects the underpayment and the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered, however, and failure to identify, comment on or criticize activities does not constitute acceptance of such activities.

Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process.

CLAIM SAMPLE REVIEWED AND OVERVIEW OF FINDINGS

The examiners reviewed files drawn from the category of Closed Claims for the period April 1, 2002 through March 31, 2003, commonly referred to as the "review period". The examiners reviewed 139 Meritplan Insurance Company claims files. The examiners cited seven claims handling violations of the Fair Claims Settlement Practices Regulations and/or California Insurance Code Section 790.03 within the scope of this report. Further details with respect to the files reviewed and alleged violations are provided in the following tables and summaries.

Meritplan Insurance Company			
CATEGORY	**CLAIMS FOR REVIEW PERIOD**	**REVIEWED**	**CITATIONS**
Collateral Protection Automobile Collision	7,143	65	4
Collateral Protection Automobile Other Than Collision	447	35	1
Homeowners Non-Water/Mold	25	25	2
Homeowners Water/Mold	14	14	0
TOTALS	7,629	139	7

TABLE OF TOTAL CITATIONS		
Citation	**Description**	**Meritplan Insurance Company**
CCR §2695.5(e)(1)	The Company failed to acknowledge notice of claim within 15 calendar days	2
CCR §2695.7(b)(3)	The Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance.	2
CCR §2695.7)(g)	The Company attempted to settle a claim by making a settlement offer that was unreasonably low.	2
CCR §2695.7(b)	The Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.	1
Total Citations		7

SUMMARY OF CRITICISMS, INSURER COMPLIANCE ACTIONS AND TOTAL RECOVERIES

The following is a brief summary of the criticisms that were developed during the course of this examination related to the violations alleged in this report. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. In response to each criticism, the Company is required to identify remedial or corrective action that has been or will be taken to correct the deficiency. Regardless of the remedial actions taken or proposed by the Company, it is the Company's obligation to ensure that compliance is achieved. Money recovered within the scope of this report was $336.16.

1. The Company failed to acknowledge notice of claim within 15 calendar days. In two instances, the Company failed to acknowledge notice of claim within 15 calendar days. The Department alleges these acts are in violation of CCR § 2695.5(e)(1).

Summary of Company Response: The Company has acknowledged that, in both instances, the notice of claim was not acknowledged within the required time frame. It is Company policy that all CIC and CCR time lines are to be followed. As a result of this claim examination, the Company has reaffirmed with its personnel the need to adhere to the cited CCR section. Also, the Company will continue to reinforce timely acknowledgement in training conducted with staff. This timeliness function will be automated with the implementation of Claim Source.

2. The Company failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance. In two instances, the Company failed to include a statement in their claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR §2695.7(b)(3).

Summary of Company Response: The Company has acknowledged that, in the instances cited, the denial letters issued did not contain the required language. It is Company policy to include this wording in all denial notices. The two files cited involved partial denials and the matter was addressed with the individual adjuster. Also, the Company has reaffirmed with all staff, the need to adhere to CCR §2695.7(b)(3).

3. The Company attempted to settle a claim by making a settlement offer that was unreasonably low. In two instances, the Company attempted to settle a claim by making a settlement offer that was unreasonably low. In one instance, tax was deducted from a collision settlement and in the other, the settlement failed to include additional storage charges. The Department alleges these acts are in violation of CCR §2695.7(g).

Summary of Company Response: The Company has acknowledged these errors. In one instance, the Company views the deficiency as adjuster oversight and a supplemental payment was issued to the insured. In the second instance, the Company reimbursed tow/storage charges and changed the acknowledgement letter template in the system

to improve the disclosure on the tow/storage limit to the borrower. Additionally, this deficiency has been brought to the attention of all staff.

4. **The Company failed to accept or deny the claim within 40 calendar days.** In one instance, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. The Department alleges this act is in violation of CCR §2695.7(b).

Summary of Company Response: The Company has acknowledged that the adjuster did not take final action within the required time frame and indicated this was an exception to their standard practice due to high claim volume at the time. The Company will continue to reinforce the importance of the 40 day time frame and training will be enhanced to address this deficiency. Lastly, this timeliness function will be automated with the implementation of Claim Source which will prompt or remind the staff to take required action in a timely manner.